

Saudi Arabian Fertilizers Company (SAFCO)

(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2016

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)
(A SAUDI JOINT STOCK COMPANY)**

Scope of Audit:

We have audited the accompanying balance sheet of Saudi Arabian Fertilizers Company (SAFCO) A Saudi Joint Stock Company (the "Company") as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified Opinion:

In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by laws in so far as they affect the preparation and presentation of the financial statements.

For Ernst & Young

Abdulaziz Saud Alshubaihi
Certified Public Accountant
Registration No. 339

17 Jumada'l 1438H
14 February 2017

Al Khobar



Saudi Arabian Fertilizers Company (SAFCO)
(A Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2016

| | <i>Note</i> | <i>2016</i> <i>SR "000"</i> | <i>2015</i> <i>SR "000"</i> |
|---|-------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 4 | 316,755 | 1,460,039 |
| Accounts receivable | 5 | 467,270 | 637,606 |
| Prepayments and other receivables | 6 | 251,501 | 267,775 |
| Inventories | 7 | 505,306 | 434,634 |
| Home ownership receivable – current portion | 11 | 18,211 | 15,250 |
| TOTAL CURRENT ASSETS | | 1,559,043 | 2,815,304 |
| NON-CURRENT ASSET | | | |
| Investment in an associate | 8 | 666,360 | 609,049 |
| Available for sale investments | 9 | 512,867 | 307,587 |
| Property, plant and equipment | 10 | 5,485,870 | 5,173,218 |
| Home ownership receivables | 11 | 127,334 | 79,399 |
| Employees advances | | 11,399 | 13,120 |
| Deferred costs | 13 | 10,909 | 14,649 |
| TOTAL NON-CURRENT ASSETS | | 6,814,739 | 6,197,022 |
| TOTAL ASSETS | | 8,373,782 | 9,012,326 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable, other payables and accruals | 14 | 627,219 | 564,008 |
| Dividends payable | 19 | 178,724 | 185,537 |
| Zakat provision | 15 | 40,941 | 70,640 |
| TOTAL CURRENT LIABILITIES | | 846,884 | 820,185 |
| NON-CURRENT LIABILITY | | | |
| Employees' terminal benefits and savings plan | 16 | 546,171 | 595,956 |
| TOTAL LIABILITIES | | 1,393,055 | 1,416,141 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 17 | 4,166,667 | 4,166,667 |
| Statutory reserve | | 1,985,276 | 1,879,710 |
| General reserve | 18 | 45,105 | 45,105 |
| Retained earnings | | 365,717 | 42,021 |
| Proposed dividends | 19 | - | 1,250,000 |
| Unrealised gain from available for sale investments | 9 | 417,962 | 212,682 |
| TOTAL SHAREHOLDERS' EQUITY | | 6,980,727 | 7,596,185 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 8,373,782 | 9,012,326 |

Company Chairman
Yousef A. Al-Benyan



Company's President
Ahmed M. Al-Jabr



Finance Director
Abdullah A. Al Ghamdi



The attached notes 1 to 24 form part of these financial statements.

Saudi Arabian Fertilizers Company (SAFCO)
(A Saudi Joint Stock Company)

STATEMENT OF INCOME

Year ended 31 December 2016

| | Note | 2016 SR "000" | 2015 SR "000" |
|---|------|------------------|------------------|
| Sales | | 2,855,924 | 3,547,265 |
| Cost of sales | | (1,806,246) | (1,462,213) |
| GROSS PROFIT | | 1,049,678 | 2,085,052 |
| General and administration expenses | 20 | (69,407) | (71,222) |
| INCOME FROM MAIN OPERATIONS | | 980,271 | 2,013,830 |
| Investment income from time deposits | | 12,697 | 9,727 |
| Other income, net | 21 | 27,883 | 54,704 |
| INCOME BEFORE SHARE IN RESULTS OF AN ASSOCIATE AND ZAKAT | | 1,020,851 | 2,078,261 |
| Share in results of an associate | 8 | 57,311 | 118,168 |
| INCOME BEFORE ZAKAT | | 1,078,162 | 2,196,429 |
| Zakat | 15 | (22,500) | (66,000) |
| NET INCOME FOR THE YEAR | | 1,055,662 | 2,130,429 |
| <u>EARNINGS PER SHARE (SR):</u> | | | |
| Attributable to income from main operations | | 2.35 | 4.83 |
| Attributable to net income for the year | | 2.53 | 5.11 |
| Number of shares outstanding (in thousands) | | 416,667 | 416,667 |

Company Chairman
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Finance Director
Abdullah A. Al Ghamdi



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Saudi Arabian Fertilizers Company (SAFCO)
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

| | Note | 2016 SR "000" | 2015 SR "000" |
|---|----------|--------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Income before zakat | | 1,078,162 | 2,196,429 |
| Adjustments for: | | | |
| Depreciation and amortisation | | 447,771 | 400,708 |
| Write-off of property, plant and equipment | | 13,510 | 16,329 |
| Provision for employees' terminal benefits and savings plan | | 58,404 | 63,038 |
| Share in results of an associate | | (57,311) | (118,168) |
| Dividends income from available for sales investments | | (14,236) | (18,981) |
| Investment income from time deposits | | (12,697) | (9,727) |
| | | 1,513,603 | 2,529,628 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivables | | 170,336 | (38,226) |
| Prepayments and other receivables | | 16,274 | 11,324 |
| Inventories | | (67,917) | (32,144) |
| Accounts payable, other payables and accruals | | 63,211 | 317,090 |
| Cash from operations | | 1,695,507 | 2,787,672 |
| Employees advances | | 1,721 | (2,773) |
| Employees' terminal benefits and savings plan paid | | (112,352) | (26,076) |
| Employees' contribution to savings plan | | 3,686 | 6,056 |
| Commission earned on savings plan | | 477 | 150 |
| Employees' home ownership program, net | | 21,393 | 13,759 |
| Zakat paid | | (52,199) | (83,014) |
| Net cash from operating activities | | 1,558,233 | 2,695,774 |
| INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | | (845,237) | (778,514) |
| Dividends received from available for sale investments and investment in an associate | | 14,236 | 134,491 |
| Investment income from time deposits received | | 12,697 | 9,727 |
| Net cash used in investing activities | | (818,304) | (634,296) |
| FINANCING ACTIVITY | | | |
| Dividends paid and directors' remuneration | | (1,883,213) | (2,241,533) |
| Cash used in financing activities | | (1,883,213) | (2,241,533) |
| DECREASE IN CASH AND CASH EQUIVALENT | | (1,143,284) | (180,055) |
| Cash and cash equivalent at the beginning of the year | 4 | 1,460,039 | 1,640,094 |
| CASH AND CASH EQUIVALENT AT THE END OF THE YEAR | 4 | 316,755 | 1,460,039 |

The attached notes 1 to 24 form part of these financial statements.

Saudi Arabian Fertilizers Company (SAFCO)
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2016

Non-cash transactions:

| | 2016 SR "000" | 2015 SR "000" |
|---|------------------|------------------|
| Transfer of spare parts from property, plant and equipment to inventory (note 10) | 8,254 | 20,834 |
| Transfer of spare parts from inventory to property, plant and equipment (note 10) | 5,499 | 5,221 |
| Dividends from investment in an associate | - | 125,000 |
| Dividends from available for sale investments | - | 9,490 |
| Transfer to employees home ownership program from construction work in progress (note 10) | 72,289 | 72,882 |

Company Chairman
Yousef A. Al-Benyan



Company's President
Ahmed M. Al Jabr



Finance Director
Abdullah A. Al Ghamdi



The attached notes 1 to 24 form part of these financial statements.

Saudi Arabian Fertilizers Company (SAFCO)
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2016

| | Share capital SR "000" | Statutory reserve SR "000" | General reserve SR "000" | Retained earnings SR "000" | Proposed dividends SR "000" | Unrealised gain from available for sale investments SR "000" | Total SR "000" |
|-----------------------------------|---------------------------|----------------------------------|--------------------------------|----------------------------------|-----------------------------------|---|-------------------|
| Balance at 31 December 2014 | 3,333,333 | 1,666,667 | 45,105 | 2,459,369 | - | 357,222 | 7,861,696 |
| Increase in share capital | 833,334 | - | - | (833,334) | - | - | - |
| Net income for the year | - | - | - | 2,130,429 | - | - | 2,130,429 |
| Transfer to statutory reserve | - | 213,043 | - | (213,043) | - | - | - |
| Dividends (note 19) | - | - | - | (2,250,000) | - | - | (2,250,000) |
| Directors' remuneration | - | - | - | (1,400) | - | - | (1,400) |
| Movement during the year (note 9) | - | - | - | - | - | (144,540) | (144,540) |
| Proposed dividends (note 19) | - | - | - | (1,250,000) | 1,250,000 | - | - |
| Balance at 31 December 2015 | 4,166,667 | 1,879,710 | 45,105 | 42,021 | 1,250,000 | 212,682 | 7,596,185 |
| Net income for the year | - | - | - | 1,055,662 | - | - | 1,055,662 |
| Transfer to statutory reserve | - | 105,566 | - | (105,566) | - | - | - |
| Dividends paid (note 19) | - | - | - | - | (1,250,000) | - | (1,250,000) |
| Interim dividends (note 19) | - | - | - | (625,000) | - | - | (625,000) |
| Directors' remuneration | - | - | - | (1,400) | - | - | (1,400) |
| Movement during the year (note 9) | - | - | - | - | - | 205,280 | 205,280 |
| Balance at 31 December 2016 | 4,166,667 | 1,985,276 | 45,105 | 365,717 | - | 417,962 | 6,980,727 |

Company Chairman
Yousef A. Al-Benyan



Company's President
Ahmed M. Al-Jabr



Finance Director
Abdullah A. Al-Chandi



Saudi Arabian Fertilizers Company (SAFCO)

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

1 ACTIVITIES

Saudi Arabian Fertilizers Company is a Saudi Joint Stock Company (the "Company" or "SAFCO") incorporated under Royal Decree Number M/13 dated 11 Jumada' I 1385H (corresponding to 7 September 1965). The Company was initially registered in the city of Dammam with Commercial Registration number 2050001841 dated 1 Dhl al-Hijjah 1385H (corresponding to 24 March 1966), and later on the Company's head office was shifted to Jubail Industrial City with commercial registration number 2055002359 dated 29 Shawwal 1411H (corresponding to 14 May 1991). The previous commercial registration was converted to a branch.

The Company's present principal business activity is the manufacture and conversion of Urea and Ammonia.

SAFCO holds a 50% equity interest in National Chemical Fertilizers Company ("Ibn Al Baytar"), 3.87% equity interest in Arabian Industrial Fibers Company ("Ibn Rushd") and 1.69% equity interest in Yanbu National Petrochemicals Company ("Yansab").

The Board of Directors approved in their meeting held on 11 Muharram 1433H corresponding to 6 December 2011 the capital expansion project for the new plant (SAFCO V) at the Company's complex in Jubail Industrial City for the manufacturing of Urea at an estimated cost of SR 2,000 million, with an annual capacity of 1.1 million metric tons. The construction of the plant has been completed in 2015 and it has started its commercial production on 14 July 2015.

2 BASIS OF PREPARATION

The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective 25 Rajab 1437H corresponding to 2 May 2016 ("the effective date"). The new regulations shall replace the Companies Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi'I 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the effective date of the regulations shall make all necessary amendments to their By Laws to comply with the requirements of the provisions of the new companies regulations within a period of one year of the effective date of the companies' regulations.

The Company is in the process to make the necessary amendments to the Company's Articles of Association as required by the new regulations. Management intends to complete all formalities within the grace period granted by the new regulations (24 Rajab 1438H corresponding to 21 April 2017). Accordingly, these financial statements have been prepared in accordance with the old companies regulations.

3 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting Convention

These financial statements are prepared under the historical cost convention except for the measurement of available for sale investments at fair value.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are considered reasonable and appropriate in the Company's given circumstances.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances, cash on hand, short term Murabaha deposits that are readily convertible into known amounts of cash and have original maturities of three months or less.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable are stated at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the account receivable amount is considered doubtful. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost or net realisable value, with due allowance for obsolete or slow moving items. Cost is determined as follows:

Raw materials, consumables and general spare parts - Purchase cost on a weighted average basis.

Finished goods - Cost of direct materials and labor plus attributable overhead based on a normal level of activity.

Employees' home ownership program

The Company has a Home Ownership Program that offers eligible Saudi employees home ownership (the "HOP") opportunities. Unsold housing units constructed for eventual sale to eligible Saudi employees are included under property, plant and equipment and depreciated over 33 years. Upon signing the sale contract, the related cost and accumulated depreciation are derecognized and the loans receivable from the employees in respect of the purchase of the housing units are classified under long term assets and are recovered over a period not exceeding twenty years. Installments recoverable within twelve months period from the date of the balance sheet are classified under current assets.

Investment in an associate

Investment in companies where the Company effectively participates in the financial and operational decisions of these investee companies, normally when the Company acquires share between 20% to 50%, are recognized as associates and are accounted for using the equity method.

Available for sale investments

Investments purchased neither with the intention of being held to maturity nor for trading purposes are classified as available for sale investments and are measured at fair value. After initial recognition, unrealized gains and losses are reported as a separate component of shareholders' equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in shareholders' equity is included in the statement of income for the year.

Dividends from available for sales investments are recognized when dividends are declared and when the right to dividends distribution is established.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Construction work in progress is not depreciated. The cost of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Turnaround costs related to major maintenance, which normally benefit more than one year are capitalised and are depreciated over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously undepreciated costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs.

Expenditures for repair and maintenance are charged to income. Improvement that increase the value or materially extend the life of the related assets are capitalized.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment(continued)

Critical spare parts which are considered essential to ensure continuous plant operation, are classified under "plant and equipment" under non-current assets, and are depreciated using the straight line method in accordance with the applicable depreciation rates. The following two conditions must apply to all critical spare parts:

- They are not readily available in the market, or unavailable.
- Their manufacturing requires an extended time to complete.

Deferred costs

Deferred costs represent the cost incurred for developing the infrastructure of land that will be used by the home ownership program (the "HOP") in the future. Deferred costs are classified under non current assets and amortized over 5 years.

The amortization expenses are included under cost of sales in the statement of income.

Impairment of non current assets

At each balance sheet date, the Company reviews the carrying values of its non current assets for impairment when events or circumstances indicate that carrying value may not be recoverable. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or cash generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognized as expense when incurred.

Where an impairment loss subsequently reversed, the carrying value of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. The reversal of impairment loss is recognized as income in the period in which the indicators are no longer exist.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Zakat

Zakat is provided in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income. Additional amounts, if any, that may become due on the finalization of an assessment are accounted for in the year in which the assessment is finalized.

Employees' terminal benefits

Provision is made for amounts payable under the Company's policies applicable to employees accumulated periods of service at the balance sheet date.

Employees' saving plan

The Company maintains an employees' saving plan for Saudi employees. The contributions from the participants are deposited in separate bank account and liability is established for these contributions. The Company's contribution under the saving plan is charged to the statement of income.

Dividends

Final dividends are recognized as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income in each year until it has built up a reserve equal to half of the capital. The reserve is not available for distribution.

Revenue recognition

In general most of the Company's sales are made to SABIC (the "Marketer"). Upon delivery of products to the Marketer, sales are recorded at provisional selling prices net of selling, distribution and marketing expenses paid directly by the Marketer. These selling prices are later adjusted based upon actual selling prices received by the Marketer from third parties.

Expenses

Expenses related to executive management and technology and innovation costs are classified as general and administration expenses. All other costs are considered as production cost.

Earnings per share

Basic earning per share from net income is calculated by dividing the net income for the year by the weighted average number of shares during the year.

Basic earnings per share from main operations is calculated by dividing income from main operations for the year by the weighted average number of shares during the year.

Operating lease

Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

Foreign currency transactions

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Segmental analysis

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

As substantial portion of the Company's sales are made to one customer, and substantially all of the Company's operations are related to one operating segment which is fertilizers; accordingly, segmental analysis by geographical and operating segment has not been presented.

Fair values

For investments traded in organised markets, fair value is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment, in case such value is not reliably determinable the cost is considered the fair value.

Saudi Arabian Fertilizers Company (SAFCO)

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

4 CASH AND CASH EQUIVALENTS

| | <i>2016</i> <i>SR "000"</i> | <i>2015</i> <i>SR "000"</i> |
|------------------------------|--------------------------------|--------------------------------|
| Bank balances | 210,755 | 242,039 |
| Short term Murabaha deposits | 106,000 | 1,218,000 |
| | 316,755 | 1,460,039 |

The short term Murabaha deposits are kept with local commercial banks and are maintained in Saudi Riyals and US Dollars. The short term Murabaha deposits have original maturity dates of less than 3 months and carry commission at the rates ranging from 0.3% to 3.7% per annum (2015: 2% to 2.9 % per annum).

Bank balances at the end of the year include employees saving plan deposits of SR 31.6 million (2015: SR 31.9 million) and unpaid dividends deposit of SR 179 million (2015: SR 185.5 million), both held in separate bank accounts and are not available to the Company. Interest earned on the employees' savings plan deposit is added to the deposit balance while interest earned on the unpaid dividends deposit is recognized in the statement of income when earned.

5 ACCOUNTS RECEIVABLE

| | <i>2016</i> <i>SR "000"</i> | <i>2015</i> <i>SR "000"</i> |
|---|--------------------------------|--------------------------------|
| Accounts receivable due from SABIC (note 12) | 433,703 | 622,290 |
| Other receivables due from SABIC affiliates (note 12) | 33,547 | 15,291 |
| Other trade receivables | 20 | 25 |
| | 467,270 | 637,606 |

6 PREPAYMENTS AND OTHER RECEIVABLES

| | <i>2016</i> <i>SR "000"</i> | <i>2015</i> <i>SR "000"</i> |
|-----------------------------|--------------------------------|--------------------------------|
| Advances to SABIC (note 12) | 175,427 | 81,653 |
| Advance to suppliers | 22,399 | - |
| Prepayments | 50,467 | 48,779 |
| Dividend receivable | - | 134,491 |
| Other receivables | 3,208 | 2,852 |
| | 251,501 | 267,775 |

7 INVENTORIES

| | <i>2016</i> <i>SR "000"</i> | <i>2015</i> <i>SR "000"</i> |
|---|--------------------------------|--------------------------------|
| Spares parts and consumables | 431,615 | 418,150 |
| Finished goods | 81,670 | 57,727 |
| Goods in transit | 10,675 | 1,343 |
| Raw materials | 2,738 | 3,332 |
| | 526,698 | 480,552 |
| Less: allowance for slow moving inventories | (21,392) | (45,918) |
| | 505,306 | 434,634 |

Saudi Arabian Fertilizers Company (SAFCO)

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

7 INVENTORIES (continued)

The movement of allowance for slow moving inventories is as follows:

| | 2016 SR "000" | 2015 SR "000" |
|------------------------------|--------------------------------|--------------------------------|
| At the beginning of the year | 45,918 | 74,825 |
| Charge for the year | 8,307 | 5,062 |
| Reversal | (32,833) | (33,969) |
| At the end of the year | 21,392 | 45,918 |

8 INVESTMENT IN AN ASSOCIATE

This represents 50% equity interest in Ibn Al Baytar, a limited liability company registered in the Kingdom of Saudi Arabia in the city of Jubail and engaged in producing ammonia, urea, phosphate and compounds fertilizers.

The movement of the investment in Ibn Al Baytar is as follows:

| | 2016 SR "000" | 2015 SR "000" |
|-------------------------------|--------------------------------|--------------------------------|
| At the beginning of the year | 609,049 | 740,881 |
| Share in results for the year | 57,311 | 118,168 |
| Dividends received | - | (125,000) |
| Dividends declared | - | (125,000) |
| At the end of the year | 666,360 | 609,049 |

9 AVAILABLE FOR SALE INVESTMENTS

| | Quoted SR "000" | Unquoted SR "000" | Total 2016 SR "000" | Total 2015 SR "000" |
|--|--------------------|----------------------|--|--|
| Cost: | | | | |
| at the beginning and end of the year | 94,905 | 329,181 | 424,086 | 424,086 |
| Valuation adjustment: | | | | |
| At the beginning of the year | 212,682 | - | 212,682 | 357,222 |
| Movement during the year | 205,280 | - | 205,280 | (144,540) |
| At the end of the year | 417,962 | - | 417,962 | 212,682 |
| Impairment adjustment at the beginning and end of the year | - | (329,181) | (329,181) | (329,181) |
| Carrying amounts: | | | | |
| At 31 December 2016 | 512,867 | - | 512,867 | |
| At 31 December 2015 | 307,587 | - | | 307,587 |

Quoted investment represents 1.69% (2015: 1.69%) shares held in Yansab, a listed company in Tadawul.

Unquoted investment represents 3.87% (2015: 3.87%) shares held in Ibn Rushd, an affiliated company of SABIC.

Saudi Arabian Fertilizers Company (SAFCO)

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

10 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

| | |
|-------------------------|--------------|
| Buildings | 33 years |
| Plant and equipment | 5 - 20 years |
| Major maintenance parts | 3 years |
| Others | 4 -10 years |

Cost:

| | Buildings SR "000" | Plant and equipment SR "000" | Major maintenance parts SR "000" | Others SR "000" | Construction work in progress SR "000" | Total 2016 SR "000" | Total 2015 SR "000" |
|--|-----------------------|------------------------------------|---|--------------------|---|---------------------------|---------------------------|
| At the beginning of the year | 558,419 | 7,197,425 | 320,066 | 158,294 | 767,427 | 9,001,631 | 8,470,428 |
| Additions | - | 28,431 | 108,274 | 13,726 | 694,806 | 845,237 | 778,514 |
| Transfer (to)/from spare parts | - | (8,254) | - | - | 5,499 | (2,755) | (15,612) |
| Transfers | 2,624 | 107,992 | 4,225 | 13,311 | (128,152) | - | (72,882) |
| Transfer to employees home ownership program | - | - | - | - | (72,289) | (72,289) | (158,817) |
| Disposals and write-off | (712) | (35) | (91,036) | (14,207) | (12,878) | (118,868) | (9,001,631) |
| At the end of the year | 560,331 | 7,325,559 | 341,529 | 171,124 | 1,254,413 | 9,652,956 | 9,001,631 |

Accumulated depreciation:

| | | | | | | | |
|------------------------------|---------|-----------|----------|----------|---|-----------|-----------|
| At the beginning of the year | 299,299 | 3,263,316 | 172,932 | 92,866 | - | 3,828,413 | 3,573,933 |
| Charge for the year | 16,268 | 312,427 | 90,595 | 24,741 | - | 444,031 | 396,968 |
| Disposals and write-off | (111) | (4) | (91,036) | (14,207) | - | (105,358) | (142,488) |
| At the end of the year | 315,456 | 3,575,739 | 172,491 | 103,400 | - | 4,167,086 | 3,828,413 |

Net book amounts:

| | | | | | | | |
|---------------------|---------|-----------|---------|--------|-----------|-----------|-----------|
| At 31 December 2016 | 244,875 | 3,749,820 | 169,038 | 67,724 | 1,254,413 | 5,485,870 | 5,173,218 |
| At 31 December 2015 | 259,120 | 3,934,109 | 147,134 | 65,428 | 767,427 | | |

The property, plant and equipment are constructed on land leased from the Royal Commission for Jubail and Yanbu at nominal rent for 30 years, which commenced on 1 Shawwal 1411H (corresponding to 15 April 1991). The lease is renewable by mutual agreement of both parties.

Construction work in progress related to various capital projects (note 22).

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11 HOME OWNERSHIP RECEIVABLES

These represent amounts due from eligible Saudi employees under the Home Ownership Program (the "HOP"). Amounts are repayable over a period not exceeding twenty years and no borrowing costs are charged on the balances.

12 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represents shareholder, key personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. The following is a summary of significant transactions with related parties:

| <u>Name</u> | <u>Nature of relationship</u> | <u>Nature of transactions</u> | <u>Amount of transactions</u> | |
|------------------|-------------------------------|---|-------------------------------|------------------|
| | | | 2016 SR "000" | 2015 SR "000" |
| SABIC | Shareholder | Sales | 2,840,694 | 3,533,437 |
| | | Advance payment | 175,427 | 81,653 |
| | | Payment of insurance | 31,775 | 30,750 |
| | | Purchased raw materials | 2,747 | 3,686 |
| | | Technology and innovation | 42,629 | 52,764 |
| | | Shared services | 58,591 | 58,607 |
| SABIC affiliates | Affiliates | Sales | 15,230 | 13,828 |
| | | Services | 2,719 | 1,809 |
| | | Purchased raw materials | 13,248 | 18,561 |
| Ibn Al Baytar | Associate company | Management and services charge to associate | 92,162 | 101,776 |
| | | Share in results | 57,311 | 118,168 |

12.1 The Company has a service level agreement with SABIC (Shared Services Organization -- SSO) for the provision of accounting, human resources, information technology (ERP/SAP), engineering, procurement and related services.

12.2 The Company's annual contribution to SABIC for technology and innovation is 1.5 % of total sales which is charged currently to the statement of income.

12.3 Substantially, all of the Company's sales are made to SABIC under marketing and off take agreements.

12.4 The management and operational activities of SAFCO and Ibn Al Baytar were consolidated in 1994 and this has no impact on the legal structure of either Companies. All of the employees and their related balances were transferred to SAFCO.

Prices and terms of payments for the above transactions are approved by the management.

a) amounts due to related parties shown in note 14 include the following balances:

| <u>Related party name:</u> | 2016 SR "000" | 2015 SR "000" |
|----------------------------|------------------|------------------|
| SABIC | 115,975 | 124,364 |
| Ibn Al Baytar | 109,225 | 11,710 |
| SABIC affiliates | 15,150 | 12,829 |
| | <u>240,350</u> | <u>148,903</u> |

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At 31 December 2016

13 DEFERRED COSTS

| | 2016 SR "000" | 2015 SR "000" |
|--------------------------------------|----------------------|----------------------|
| Cost: | | |
| At the beginning and end of the year | <u>18,701</u> | <u>18,701</u> |
| Amortization: | | |
| At the beginning of the year | 4,052 | 312 |
| Charge for the year | <u>3,740</u> | <u>3,740</u> |
| At the end of the year | <u>7,792</u> | <u>4,052</u> |
| Net book amount: | | |
| At 31 December 2016 | <u>10,909</u> | |
| At 31 December 2015 | | <u><u>14,649</u></u> |

14 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

| | 2016 SR "000" | 2015 SR "000" |
|--|-----------------------|-----------------------|
| Accrued expenses | 337,361 | 334,284 |
| Amounts due to related parties (note 12) | 240,350 | 148,903 |
| Accounts payable | 10,155 | 31,182 |
| Other payables | <u>39,353</u> | <u>49,639</u> |
| | <u>627,219</u> | <u>564,008</u> |

15 ZAKAT

Charge for the year

The zakat charge consists of:

| | 2016 SR "000" | 2015 SR "000" |
|--|----------------------|----------------------|
| Current year provision and charge for the year | <u>22,500</u> | <u>66,000</u> |

Zakat base is calculated as follows:

| | 2016 SR "000" | 2015 SR "000" |
|--|-----------------------|-------------------------|
| Equity | 6,091,482 | 6,504,474 |
| Opening provisions and other adjustments | 629,298 | 618,114 |
| Book value of long term assets | <u>(6,552,023)</u> | <u>(6,615,169)</u> |
| | 168,757 | 507,419 |
| Zakatable income for the year | <u>726,976</u> | <u>2,207,010</u> |
| Zakat base | <u>895,733</u> | <u>2,714,429</u> |

The differences between the financial and the zakatable income are mainly due to provisions which are not allowed in the calculation of zakatable income.

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At 31 December 2016

15 ZAKAT (continued)

Movements in provision

The movement in the zakat provision was as follows:

| | 2016 SR "000" | 2015 SR "000" |
|------------------------------|------------------|------------------|
| At the beginning of the year | 70,640 | 87,654 |
| Charge for the year | 22,500 | 66,000 |
| Payment during the year | (52,199) | (83,014) |
| At the end of the year | 40,941 | 70,640 |

Status of assessments

The Company has finalized its zakat status with the General Authority of Zakat and Tax (the "GAZT") for all years up to 31 December 2013. The zakat declarations for the years 2014 and 2015 have been filed with GAZT and still under their review.

16 EMPLOYEES TERMINAL BENEFITS AND SAVINGS PLAN

| | Saving plan | | | | | |
|---|--|---------------------------------------|---------------------------------------|---------------------------------|----------------------------------|------------------|
| | Employees terminal benefits SR"000" | Employees' contribution SR"000" | Employer's contribution SR"000" | Commission earned SR"000" | Savings plan total SR"000" | Total SR"000" |
| 31 December 2016: | | | | | | |
| At the beginning of the year | 535,206 | 30,867 | 29,733 | 150 | 60,750 | 595,956 |
| Charged during the year | 54,576 | - | 3,828 | - | 3,828 | 58,404 |
| Contributed during the year | - | 3,828 | - | - | 3,828 | 3,828 |
| Movement in loans taken by employees | - | (142) | - | - | (142) | (142) |
| Commission earned | - | - | - | 477 | 477 | 477 |
| Paid during the year | (101,256) | (5,474) | (5,473) | (149) | (11,096) | (112,352) |
| At the end of the year | 488,526 | 29,079 | 28,088 | 478 | 57,645 | 546,171 |
| 31 December 2015: | | | | | | |
| At the beginning of the year | 497,768 | 27,076 | 27,801 | 143 | 55,020 | 552,788 |
| Charged during the year | 58,841 | - | 4,197 | - | 4,197 | 63,038 |
| Contributed during the year | - | 4,197 | - | - | 4,197 | 4,197 |
| Movement in loans taken by employees | - | 1,859 | - | - | 1,859 | 1,859 |
| Commission earned | - | - | - | 150 | 150 | 150 |
| Paid during the year | (21,403) | (2,265) | (2,265) | (143) | (4,673) | (26,076) |
| At the end of the year | 535,206 | 30,867 | 29,733 | 150 | 60,750 | 595,956 |

17 SHARE CAPITAL

Share capital is divided into 416,666,667 shares (2015: 416,666,667 shares) of SR 10 each.

18 GENERAL RESERVE

The Shareholders have established a general reserve by appropriation from the retained earnings. This reserve can be increased or decreased through Shareholders' resolution and can be used as required in the ordinary course of conducting the business of the Company.

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19 DIVIDENDS AND SUBSEQUENT EVENTS

The Company's Board of Directors, in their meeting held on 17 Jumada' I 1438H (corresponding to 14 February 2017), proposed the following matters:

- 1) To distribute cash dividends amounting SR 1 per share (SR 416.7 million in total);
- 2) To transfer the amount of SR 45 million from the general reserve to the retained earnings;
- 3) To amend the Company's by laws to comply with the requirements of the provisions of the new companies regulations, including the amendment of the paragraph concerning the statutory reserve, in such a manner that setting aside the statutory reserve from retained earnings is discontinued once the reserve reaches 30% of the Company's capital instead of 50%. Furthermore, the Board of Directors recommended to transfer the excess of the statutory reserve balance over 30% amounted to SR 735.3 million of the share capital, as at 31 December 2016, to the retained earnings, after obtaining the approval of the Shareholders in the Extraordinary General Assembly and completing all legal formalities relating to the amendment of the Company's by laws.

The above-mentioned recommendations will be presented to the Extraordinary General Assembly, which will be rescheduled at a later date, for their approval.

On 11 Ramadan 1437H (corresponding to 16 June 2016), the Board of Directors approved to distribute interim cash dividends amounting SR 1.5 per share (SR 625 million in total) for the first half of 2016. The dividends were paid during July 2016.

On 24 Safar 1437H (corresponding to 6 December 2015), the Board of Directors proposed to distribute cash dividends amounting SR 3 per share (SR 1,250 million in total) for the second half of 2015. This has been approved by the General Assembly in their meeting held on 21 Jumada' II 1437H (corresponding to 30 March 2016) and were paid on 10 April 2016.

On 18 Ramadan 1436H (corresponding to 5 July 2015), the Board of Directors approved to distribute interim cash dividends amounting SR 3 per share (SR 1,250 million in total) for the first half of 2015. The dividends were paid during 2015.

On 13 Rabi' I 1436H (corresponding to 4 January 2015), the Board of Directors proposed to distribute cash dividends amounting SR 3 per share (SR 1,000 million in total) for the second half of 2014 and 25% bonus shares (totaling to SR 833 million). This has been approved by the Extraordinary General Assembly in their meeting held on 17 Jumada' II 1436H corresponding to 6 April 2015 and were paid accordingly during 2015.

20 GENERAL AND ADMINISTRATION EXPENSES

| | 2016 SR "000" | 2015 SR "000" |
|--------------------------------|------------------|------------------|
| Technology and innovation cost | 42,629 | 52,764 |
| Employees' cost | 19,602 | 14,753 |
| Other | 7,176 | 3,705 |
| | <u>69,407</u> | <u>71,222</u> |

21 OTHER INCOME, NET

| | 2016 SR "000" | 2015 SR "000" |
|---------------------------|------------------|------------------|
| Miscellaneous income | 15,780 | 31,109 |
| Dividends earned (note 9) | 14,236 | 18,981 |
| Other (expenses) / income | (2,133) | 4,614 |
| | <u>27,883</u> | <u>54,704</u> |

22 CAPITAL COMMITMENTS

The Board of Directors approved in their meeting held on 17 Jumada II 1436H (corresponding to 6 April 2015) a capital project to supply and build up the new electricity station for SAFCO II and SAFCO III at the Company's complex in Jubail Industrial City at an estimated cost of SR 276 million. Total expenditures incurred up till 31 December 2016 amounted to SR 194.7 million (2015: SR 57.8 million) in relation to this project. The project is expected to commence commercial operation in 2018.

The Board of Directors approved in their meeting held on 18 Ramadan 1436H (corresponding to 5 July 2015) a reliability project for SAFCO IV at the Company's complex in Jubail Industrial City with an estimated procurement and construction cost of SR 747 million. Total expenditures incurred up till 31 December 2016 amounted to SR 319.7 million (2015: SR 164 million) in relation to this project. The project is expected to commence commercial operation in 2017.

The Board of Directors approved in their meeting held on 6 Rabi Alawwal 1438H (corresponding to 5 December 2016) a reliability project for SAFCO III at the Company's complex in Jubail Industrial City with an estimated procurement and construction cost of SR 461 million. The project is expected to commence commercial operation in 2018.

Moreover, the directors approved future capital expenditure in relation to other projects with an amount of SR 490.6 million (2015: SR 327 million).

23 RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company is not significantly exposed to credit risk. Cash and cash equivalents are generally placed with banks with sound credit ratings and, in general, most of the Company's sales are made to SABIC, which is a related party and has strong market reputation.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Company is subject to commission rate risk on its commission bearing assets such as short term Murabaha deposits.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages its liquidity risk by ensuring that sufficient cash flows are available. The Company's sales invoices are usually settled within 90 to 120 days of the date of the invoices. Payables are normally settled within 45 to 90 days of the date of the invoices.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not significantly subject to fluctuations in foreign exchange rates in the normal course of its business as the Company did not undertake significant transactions during the year in currencies other than Saudi Riyals and US Dollars which is pegged against Saudi Riyal.

24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, accounts receivable, other receivables, home ownership receivables and available for sale investments; its financial liabilities consist of accounts payable, other payables and dividends payable.

Management believes that fair values of the Company's financial instruments are not materially different from their carrying values at year end.